JULY 1953



# business review



EDERAL

ESERVE BANK OF

HILADELPHIA

## BUSINESS AROUND THE DISTRICT

*Grass-root reports from the district: Industry and trade good, farming spotty, coal mining off. Over-all prospects good.*

## INTEREST RATES IN PERSPECTIVE

*Although interest rates have been rising, they are not high when compared with prosperous periods in the past.*

## PROJECTING BUSINESS BORROWING

*Short-term credit needs of business are difficult to forecast. A review of past and present trends provides clues to the future.*

## APPLIANCES FIGHT FOR CONSUMER DOLLARS

*Competition is increasing in appliance markets, where buyers seek better bargains, sellers display more caution.*

## CURRENT TRENDS

*Additional copies of this issue are available*

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*Federal Reserve Bank of Philadelphia,*

*Philadelphia 1, Pa.*

# BUSINESS AROUND THE DISTRICT

*Business is really good.*

This is what we hear as we travel the Philadelphia Federal Reserve District. We have just completed a series of fifteen meetings at various places throughout the district—as far afield as the Bradford oil-producing territory and as nearby as Camden (a mere 15-cent bus fare from our doorstep). At each of these meetings, business conditions in the area—current and prospective—were analyzed by a panel of local businessmen representing various activities such as agriculture, manufacturing, trade, mining, construction, and real estate. Thus the series of meetings, in which leading bankers and businessmen of each county participated, afforded an excellent cross section of current business developments in Delaware, southern New Jersey, and the eastern two-thirds of Pennsylvania, which make up the Third District.

Our field representatives who visit all banks throughout this area also bring in favorable reports. Here is a typical observation about one nearby community: "All plants here are operating at high levels. The principal industries in the local economy are a shoe manufacturer employing 300 workers, a candy manufacturer (150), a farm equipment producer (75), a foundry (150), and a textile concern (100)." In other words, shoes, candy, cultivators, castings, and cotton goods are doing well. We might add a great variety of others but—there are bad spots.

This is a report of what we learned about business—good or bad.

### Intensive industrial activity

Manufacturing concerns are operating at or near capacity in practically every line and in almost all areas throughout the district. In Philadelphia, the industrial center of the district, and all up and down the Delaware Valley from Trenton to Wilmington, industrial plants are throbbing with activity. To turn the wheels of industry in the valley, the local electric utility had to produce 190 million kilowatt hours during the last week in June—9 per cent more than during the corresponding week of last year.

Iron-ore vessels are now plying up the Delaware River to feed the recently completed blast furnaces at Morrisville. With the new Fairless steel mill gradually approaching capacity operation and the new Grace iron mines near Morgantown, Berks County, in process of development, iron and steel manufacturing is assuming ever more importance in the diversified industrial pattern of the Third District. In the extreme western end of the district, at Johnstown, the big steel mill which specializes in steel cars and related railway equipment is operating in excess of its rated capacity. Some steel producers, however, expect a moderate tapering off in railway demand by the fourth quarter of the year.

The widespread industrial activity is exerting pressure on the labor market in many cities. Labor is scarce in Lancaster and surrounding communities. Williamsport, on the Susquehanna, is encountering a labor shortage. York, which is splitting at the seams with growth and prosperity, has both an acute labor shortage and a housing

shortage. It may take some time before this situation improves because several new plants are scheduled to come into the York area; in fact, it may take considerable time before the situation improves elsewhere in these areas.

Cities and towns in which textiles are important report moderate expansion of activity. Textile manufacturers, having gone through a period of readjustment, are meeting with better demand for their products than they have experienced for some time. The full-fashioned hosiery producers in Reading are not so busy as they would like to be, but they are gratified to see some improvement in the trade.

In the hard-coal region, business is not quite so brisk as elsewhere. "Local conditions are not good." This is the way a businessman from the anthracite area described his own territory. At greater length he referred to the increasing competition of oil and gas for space-heating purposes, the steadily shrinking production of anthracite, and the unbalanced employment situation. In Hazleton and other communities throughout the hard-coal region there is a surplus of male workers and a shortage of female workers. Years ago, textile and apparel industries moved into the area and they afforded employment to the wives and daughters of the miners. Now, with job opportunities in anthracite mining very much reduced, young men are leaving the area, with the result that the supply of labor is not in balance. Some of the women also have left the region but there are a great many more jobs for women in the textile and apparel industries, which continue to flourish, than there are jobs for men in coal mining. Hence the curious situation of a shortage of female workers and an abundance of male workers.

In view of the long-run decline in demand for anthracite, Scranton, Wilkes-Barre, Hazleton, and other cities in the hard-coal area have succeeded, through community efforts, in inducing new manufacturing industries to locate in the area. This has done much to fill the gap left in the economy by changes in fuel consumption, but even where these efforts have been reasonably successful special problems have arisen with respect to taxation or particular inducements to the new industries.

Soft coal, like hard coal, has fallen upon hard times and for much the same reason. Oil and gas are invading the markets once ruled by bituminous coal. The railroads are shifting from coal-burning steam locomotives to oil-burning Diesels, and numerous industries are shifting from coal to oil or gas for their light, heat, and power requirements.

Bituminous coal producers of western Pennsylvania face yet another obstacle, namely West Virginia. Most of the Pennsylvania mines are older, deeper, leaner, and therefore more costly to operate than the newer West Virginia mines. These developments have naturally had some adverse effects upon the local economy of the bituminous coal area in the western part of our district. In 1952, coal production in the Cambria, Clearfield, and Broad Top region was 9 per cent below that of 1951, and employment in the mines declined 8 per cent. These trends have continued during the early months of this year. Old King Coal is no longer a merry old soul. Instead of calling for his pipe, and his bowl, and his fiddlers three, he is calling for increased mechanization of deep mines, strip mining, new industrial markets, and technical improvements such as gasification of coal.

Fortunately, the number of people in our district adversely affected by difficulties in the coal industry is small contrasted with the large number of people favorably affected by the district-wide industrial prosperity generally. This is not

to ignore the fact that seven of the country's 31 major and smaller areas of substantial labor surplus are anthracite and bituminous communities in this district.

**Trends in agriculture**

In agricultural circles, the almost universal topic of conversation is the cost-price squeeze. For some time, prices of products produced on the farm have been declining, whereas costs of farming have shown little or no disposition to recede from their high levels. How severe the squeeze is depends upon a number of considerations, such as the type of crops or livestock products produced, the degree of specialization, the location of the agricultural area with reference to markets, and other factors.

Some Delaware farmers report that they cannot make any money when broilers are selling at 24 cents a pound. Deeper down in Delaware, however, it is alleged that the degree of prosperity or adversity depends not so much upon the prevailing price of broilers as upon the efficiency of production and the prevalence or absence of broiler diseases. The latter, in turn, may be partly a matter of the efficiency of production. Nevertheless, broiler prices are notoriously unstable, and a cent or two change in the market price during the comparatively short cycle between "putting in" and "hitting the market" can make a big difference in the profit and loss statement.

In Lancaster County the farmers are not quite so prosperous as formerly but still are doing very well. A farmer from that area summarized the local situation recently by saying, "Farmers are taking a licking on beef; milk prices are not too good; egg prices are not too bad; tobacco acreage is giving way somewhat to vegetable growing for the frozen-food packers." The sharp decline in prices of beef, which has brought forth much comment in the press, has not had too serious effects upon farmers in the Lancaster livestock marketing area because steer feeding is not an exclusive operation but only one aspect of a diversified farming program.

In the counties bordering along New York State, the dairy and potato farmers are doing very well. Up in the stringbean and potato country of Potter County, soil management programs are paying off, but the seasonal problem of housing migrant workers plagues the grower. Some of the dairy farmers near the Maryland border, however, report large herds with heavy milk production and consequent decreases in prices received for milk. One of the farmers in that area took his fellow-dairymen to task by pointing out that they might all be better off if they advertised milk and other dairy products rather than lending the sides of their barns for advertising somebody's beer or chewing tobacco.

In York County, farmers are making money and spending it freely. As an example, it is reported that some of the farmers in that area buy two or more tractors to avoid the inconvenience of detaching one piece of equipment and hooking on another when shifting from, let us say, plowing to harrowing.

During the war and post-war years, when prices of crops and livestock products rose faster than cost of production, farmers enjoyed unusual prosperity. Now that cost-price relationships are going against the farmers the able operators are putting forth their best efforts to improve the efficiency of their farm operations. The period of readjustment is especially difficult, it was pointed out in Berks County, for the young farmer who started out a few years ago with high-priced land, costly equipment, and limited experience compared with older farmers who have weathered periods of readjustment before.

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## Construction and real estate

Throughout most of the district there is still a large amount of construction activity in practically all of the major categories, namely, residential, commercial, industrial, including utilities, and public construction such as highways, schools, and hospitals. In York the shortage of homes is acute and many people are living in trailers. So long as that condition exists, continued activity in residential construction in that area may be expected.

There is also considerable residential building activity in Reading and elsewhere throughout Berks County. Many people who bought cheap houses in the past few years find them inadequate and are now spending from $1,000 to $1,600 to add room space required by growing families. People in this area are not interested in the very small house. According to an authority in Reading, "The two-bedroom house is practically getting to be a drug on the market, particularly if it can't grow into a three-bedroom house." Costs of building materials and of building labor are about 5 per cent higher than they were last year. Much new construction of homes is reported throughout Lancaster County, and one need only drive through the Philadelphia suburban area to observe large numbers of new homes being started.

At various places throughout the district, expansion into the suburbs has created municipal problems such as the need for schools, improved transportation facilities, water supply, and other public necessities. Needs of this kind have been reported in Altoona, Bradford, Norristown, Lancaster, York, and the Morrisville area of lower Bucks County.

Values of residential properties in most places are no longer rising, but with few exceptions they are holding steady. In Berks County and some other areas this is true of both old and new houses, though in many instances it takes a little longer to sell an old house than formerly. In Hazleton, residential values are said to have dropped about 10 per cent from the former peak. There is also less new construction in that city than in most other areas.

## People are spending money

The majority of merchants and dealers throughout the district tell us that people are spending just as much or more than they did last year. To be sure, there are differences from one region to another. A merchant from Johnstown says that retail trade is good except that there is no longer any demand for refrigerators and freezers because the local market is saturated. Retail sales in Altoona are holding up very well for most major classes of merchandise. In Reading, Gettysburg, and Chambersburg, retailers are also doing well but they add the qualification that it takes more selling effort to obtain a given dollar volume of business. Wilkes-Barre merchants say trade is fine, but some of them are apprehensive about the large volume of consumer credit.

Automobile dealers are continuing to sell new cars almost as fast as they can get them. The majority of dealers say that the used-car situation is not serious and that used cars are salable if properly priced. Although retail trade is showing evidence of becoming more competitive, the dollar volume is generally regarded as satisfactory.

## Views on the second half of 1953

In our travels around the district we encountered predominantly optimistic expressions on the business outlook for the remainder of this year; in fact, we met few genuine pessimists—that is, individuals persistently gloomy about everything.

As a class, the real estate people are the most uniformly optimistic. That is no doubt, in part at least, a characteristic of the trade. Among industrialists, the degree of optimism varies with the nature of the trade. In general, producers of durables like cement, steel, machinery, and automobiles are more optimistic than the producers of nondurables like textiles, apparel, paper, and leather products. Farmers, now going through a period of readjustment, are not sure whether they are near the beginning, middle, or end of it. Merchants, as usual, are planning for a bigger year than they had last year. If they were not planning and usually achieving larger volume, they would not be merchants—they would be merely storekeepers.

Business activity in the Third District is in harmony with the general business tempo across the country. Over-all business activity at mid-year is reckoned at an annual rate of approximately $368 billion; that is, the estimated value of all goods and services, including government services. The question is, will business continue at this rate, rise still higher, or decline during the balance of the year? The answer depends largely upon the behavior of three major spending groups, namely, consumers, government, and business.

Consumer spending, which accounts for over half the total business volume, is expected to hold to present levels or go somewhat higher. According to 1953 Survey of Consumer Finances conducted by the Board of Governors of the Federal Reserve System, consumers indicated their intentions to spend more this year than last year for such things as housing, automobiles, and household appliances. Thus far they have been spending as planned and chances are that they will continue to spend heavily in view of the record flow of income.

Government spending at the national level is determined largely by progress of the national defense program. Although efforts are being made to reduce expenditures for national defense to a minimum consistent with national security, it is doubtful whether actual outlays for the balance of the year can be reduced much, if any, below current levels. Expenditures by state and local governments are still on the increase by reason of the large number of incomplete programs for such necessities as highways, hospitals, schools, and other public structures.

Spending by businessmen during the balance of the year will be determined largely by their attitude toward inventories and their needs for plant expansion and modernization of equipment. Business inventories, though high in total dollar value, are nevertheless generally regarded as no more than adequate for the current high volume of sales. Purchasing agents are buying cautiously in order not to get over-extended.

Outlays for new plant capacity and modernization of equipment, which established a new record last year, are expected to be somewhat higher this year, according to the latest surveys. Somewhat greater emphasis is being placed upon the installation of up-to-date equipment rather than the construction of more floor space.

The behavior of prices in both wholesale and retail markets in recent months would seem to indicate that the forces of demand and supply are substantially in balance. Whether they will remain so for the balance of the year will depend largely upon the decisions of the three groups just mentioned. Of these, consumers throw the greatest weight—and they are also the hardest to predict.

# INTEREST RATES IN PERSPECTIVE

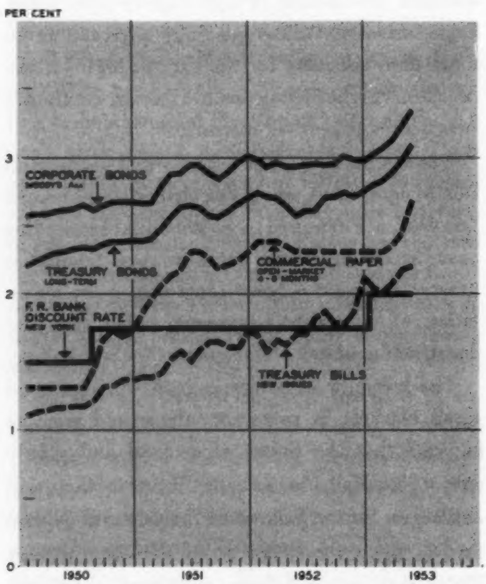
"Tight money" is once again a topic of current interest. The re-emergence of a condition that has prevailed rarely since the 1920's is illustrated by the chart, which shows the trends in interest rates on some basic types of credit instruments since the beginning of 1950.

The chart brings out an important fact that has been overlooked in much of the discussion concerning recent trends in interest rates—namely, the sharp increases that have occurred in the last few months are really a continuation of a movement that has been evident during the past three and one-half years. In this respect it will be noted that United States Treasury bills (three-month maturity) have recently earned a return equal to that of long-term Treasury bonds in early 1950. And current rates on open-market commercial paper (four- to six-month maturity) are as high as the yields on the highest grade corporate bonds in the months preceding the outbreak of fighting in Korea.

The higher level of rates now prevailing stems primarily from the fact that the economy is operating at a high level, and demand for credit is especially strong. The Federal Reserve System, in attempting to maintain stable economic conditions without tipping the scales toward either inflation or deflation, has, during most of the period covered by the chart, followed a policy of moderate restriction on the creation of new reserve money. This does not mean that the System has withdrawn funds from the market; on the contrary, Federal Reserve credit increased by enough to offset an expansion of currency in circulation and a decline in gold stock, and still provide for a substantial increase in reserve balances of member banks. Still the expansion in bank credit made possible by the growth in reserves, coupled with the increased flow of funds from saving, has not been sufficient to satisfy the demand. As a result, interest rates have risen.

But just how high are interest rates? High interest rates are relative; and a glance at the second chart shows that although rates are indeed higher than in the early post-war period (the month of May 1948 is used as an example), they are not so high as in the prosperous twenties. In 1927 (a year of moderate boom conditions),

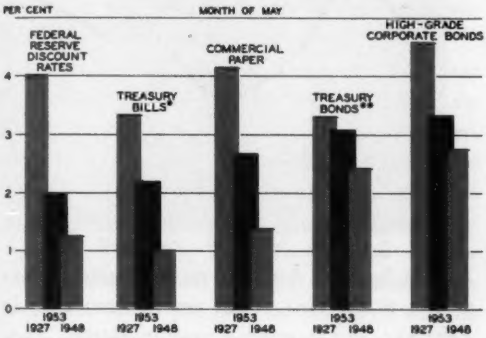
## Credit costs more today . . .




During the last three and one-half years the costs of borrowing in the market have increased by about one percentage point.

short-term rates—both Government and private—were 1 to $1\frac{1}{2}$ percentage points higher than those now prevailing. Long-term rates were higher, too, but by a smaller amount. And Federal Reserve discount rates were twice as high as the current level.

### . . . but how high are interest rates?




* Rate for 1927 applies to 3- to 6-month notes and certificates

** Partially tax exempt in 1927

They are high relative to the early postwar period but not when compared with the prosperous twenties.

Our perspective is better if we go back even further in time. Then we see that the very low rates of the 1930's and the war and post-war periods had their precedent in history. During most of the year 1894, for example, call money in New York carried a rate of only 1 per cent; the price of 90-day loans varied between 2 and $2\frac{1}{2}$ per cent; 60- to 90-day commercial paper earned from $2\frac{3}{4}$ to $3\frac{1}{2}$ per cent; and rates on long-term railroad bonds (adjusted yield) ranged from $3\frac{1}{2}$ to $3\frac{3}{4}$ per cent.*

The figures drawn from the past emphasize the fact that interest rates do not stand still in a dynamic and growing economy. Except when frozen by Government or central bank action, they tend to move—sometimes upward, sometimes downward but at all times reflecting the basic forces of supply and demand for credit. These forces are quite complex and therefore largely unpredictable. Thus future movements of interest rates—as experience has proved so well—are unpredictable, too.

* Data are taken from F. R. Macaulay, "The Movements of Interest Rates, Bond Yields, and Stock Prices in the United States Since 1856" (National Bureau of Economic Research, 1938), p. A151.

# PROJECTING BUSINESS BORROWING

Right now many people are wondering how large the customary expansion in bank loans to business will be in the second half of the year. Bankers are wondering because they use estimates of prospective demand in timing shifts in their investment portfolios in order to have funds to help satisfy the justifiable needs of their communities. Monetary officials are concerned with the prospective demand for commercial, industrial, and agricultural loans because they must decide how much reserves to supply the banking system. Businessmen and business analysts recognize bank loans as an important indicator of the state of economic conditions.

Bankers, perhaps, are closest to this question. So we asked some local loan officers about the course of business borrowing for the rest of the year. Before relating what they told us, it may

be helpful to review briefly some background information about business loans to see some of the factors influencing bankers' projections.

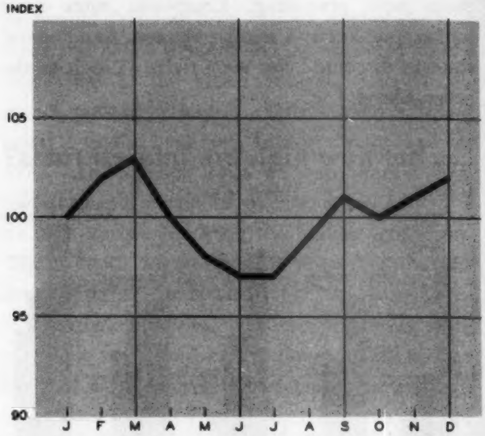
### Seasonal considerations

In making a short-term projection of almost any business index, seasonal influences are important. Business borrowing from banks is not an exception. Many industrialists manufacture goods and many wholesalers and retailers accumulate stocks against the augmented demand of one or more peak periods within a year. Since it would be expensive for the businessman to finance such operations with his own funds, he borrows from banks. Fortunately, all businesses do not have the same seasonal pattern. To some extent—but not perfectly—the various seasonal influences tend to cancel each other; so that, unlike the patterns in some kinds of business, the seasonality of business borrowing is not clear cut and is difficult to measure.

The seasonal pattern of individual banks for business credit varies according to the composition of a bank's customers. As a general rule, city banks with business customers in many different lines will have a more sustained demand for funds. Country banks servicing less diversified communities will frequently show wide seasonal swings. Since our seasonal index was computed from the weekly reporting bank series covering 23 banks in Philadelphia, Scranton, Wilkes-Barre, Camden, and Wilmington, it might be expected to exhibit a relatively narrow range of seasonal fluctuations in business loans. There seem to be, however, discernible seasonal movements in their business loans. These changes (shown in the following chart) might be used to give a general trend rather than a precise measure of the movement of seasonal credit demand.

SEASONAL PATTERN OF BUSINESS LOANS

*Third District Reporting Banks*




As can be seen, business requirements tend to decline at the turn of the year, to move up in February, and to reach a peak in March. They fall off in April, May, and June, show little change in July, then turn upward in August and climb with some interruption until December. The normal seasonal expansion in business loans of the reporting banks from the end of June through December is about 5 or 6 per cent.

### Other factors

Business activity has been subject to another well-marked series of movements which differ from seasonal fluctuations by occurring within longer and less regular periods. These movements—commonly called business cycles—do not have a fixed rhythm but are characterized by alternating waves of expansion and contraction. As bankers well know, a cyclical change in general business conditions is also reflected in bank loans. Seasonal forces still operate within these longer waves, but the over-all direction of business-loan volume is largely deter-

mined by whether business generally is expanding or contracting. For example, in every year since 1945 except one, business loans of reporting banks in this district at the end of the year were at a higher level than at the end of the previous year. Of course this has been a period of general business expansion. The exception occurred in 1949, at which time the inventory recession was severe enough to cause a downturn in business loans outstanding.

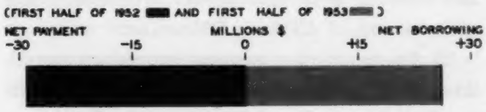
In addition to the business cycle, there are non-recurring causes of change in business activity that can alter borrowing. The most powerful of these is war. The tremendous impact of the Korean war on business activity is still fresh in our minds. From the date of the outbreak of fighting—June 25, 1950—to the end of that year, business loans of local reporting banks increased by 25 per cent, as compared with an estimated normal seasonal expansion of about 5 or 6 per cent. In 1950, second-half predictions based upon a careful analysis of seasonal and cyclical forces were set awry by the frantic spending engendered by the Korean outbreak.

As we know from experience, it is almost impossible to predict the turns of the business cycle, and it is anyone's guess what will happen between war and peace. Yet, bankers must implicitly give their judgment on these considerations when they project their business-loan demand.

### The current situation

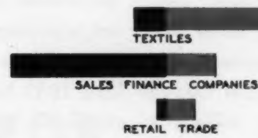
In estimating requirements for the remainder of 1953, bankers might profitably study business borrowing for the first six months of the year. The accompanying chart, showing large changes in business loans broken down by business of borrower, is based on reports from several reporting banks in this district. It indicates differences

**CHANGES IN BUSINESS LOANS OF DISTRICT REPORTING BANKS**

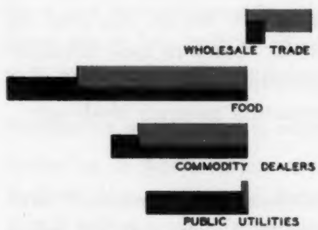



Business loans, down in the first half of 1952, increased this year.

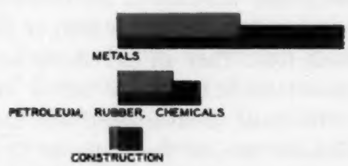
**LOAN CHANGES CLASSIFIED BY INDUSTRY***




Some groups, which on balance made repayments last year, borrowed this year . . .




. . . others either borrowed more or repaid less this year . . .




. . . and some borrowed less.

* A summary of large changes in commercial and industrial loans, as reported by several banks

between mid-year conditions in 1952 and 1953. Loans in the first half of this year increased by $26 million, as compared with a decline in the same period of 1952 of $29 million.

Of the ten major business groups measured, three that on balance made net repayments in the first six months of 1952 were net borrowers in the first half of this year. Sales finance companies, for example, reduced their bank indebtedness by about $20 million in the first half of last year. This year, however, their debt has increased by nearly $7 million in the first six months. Four other major borrowers required more credit or made lower net repayments this year. Net repayments by public utilities totaled about $13 million through June 1952 but were only about $1 million in excess of new borrowing this year. Three lines required less credit. An outstanding example is the metal and metal-using industry which in the first half of last year increased bank indebtedness by $53 million, compared to a $16 million rise over the same period in 1953. Loans to these manufacturers have apparently become less important as the defense expansion program levels out.

## Projections

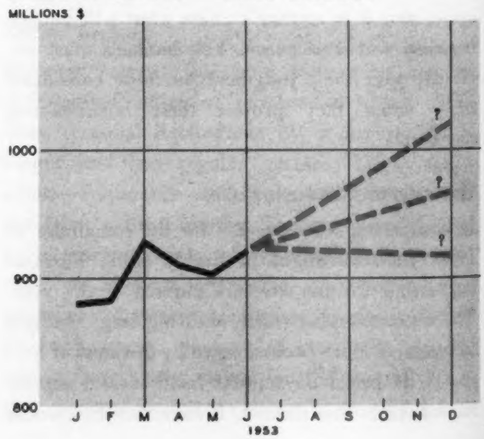
The loan officers questioned represented large city institutions, so their views may not reflect country-bank opinion. But the business loans outstanding of the banks covered account for more than one-third of the total for all district member banks and one-half of the reporting bank total. They all had shown an increase in these loans in the second half of 1952.

The basic question asked was: Do you expect business demand for credit to be stronger or weaker in the second half of 1953 than it was a year ago? Three of the six bankers believe that business demand for bank loans will be as strong to a little stronger this year than in the second half of 1952. One banker feels that his business loans will rise somewhat more slowly this year; two see a probability that their total will decline from the end of June to the end of December.

Since the increase in business loans in the second half of last year was greater than might be explained by normal seasonal expansion, the three bankers forecasting greater demand this year are looking toward exceptionally good business conditions. The consensus here is that all major business customers, with the possible exception of the foods group, will at least match year-ago requirements. Two of the three think that construction loans will be noticeably larger than in the same six-month period last year. Demand for credit by sales finance companies is expected to remain above last year's, as are requirements of textile, apparel, and leather manufacturers.

The loan officer who feels that business loans will rise—but not by so much as a year ago—is, in effect, predicting normal seasonal demand

BUSINESS LOANS — THIRD DISTRICT



in the second half of this year. Somewhat surprisingly, the two bankers who think their business loans will be lower at the year's end than at present do not expect any appreciable contraction in general business conditions. One believes that business loans outstanding at his bank will shrink because a major part of the bank's customers will not have large seasonal requirements in the second half of the year. It is also felt that business inventories are generally adequate and there is little "stocking up" in the offing. The other banker who estimates a decline in these loans seems to base his estimate on the abnormal demand for credit in the first half of the year. This banker feels that the Mills Plan, which gradually shifts the bulk of corporation tax payments to the first half of the year, is tending to alter the old seasonal pattern.

Despite their divergent projections, there was a definite thread of agreement among the six loan officers interviewed. In effect, they all believe that business conditions will continue good through the balance of 1953.

# APPLIANCES FIGHT FOR CONSUMER DOLLARS

Major household appliances, including radio and television, have moved again into a highly competitive market. Not only is competition keen within the appliance field itself, but often these conveniences must compete with a new home or a new car, which also must fight for their share of consumers' spendable income.

Consumer spending still is high by any yardstick. Some consumers have been making heavy cash outlays in all the areas of spending which contribute to what we call a high standard of living. Others have committed significant proportions of their future incomes. Instalment credit outstanding at the end of May, for example, was at a record high of a little over $20 billion. A recent survey of the financial position of consumers as of early 1953 by the Board of Governors of the Federal Reserve System showed that 53 per cent had contracted some short- and intermediate-term debt. In this group, about one in four individuals owed a sum equal to at least one-fifth of their income before taxes.

## Appliance production is receding

Beginning in April, output of major appliances declined from near-record highs of last winter. Initial cutbacks came in television sets and they were sharp. Subsequently, they spread to other items. The trend was still downward in May and early June as producers continued to apply the brakes, chiefly to prevent undue inventory accumulation. For some appliances, new models were "in the works." Some of these made their appearance at the International Home Furnishings Market in Chicago, where dealer reaction left much to be desired. Buyers representing large outlets and the owners of small appliance shops alike appeared to have been conservative in their

commitments. Though many bought what they needed, others appeared to have been "just looking." Nowhere was there substantial evidence of any marked anticipation of future needs.

### Retail appliance sales are spotty

Recent behavior of sales at retail appears to justify the production cutbacks and to explain the reserved attitude of appliance dealers at their annual show. Business since early May has turned spotty. Some lines are "off" more than others, but the over-all picture is less bright than a few months ago. Frequently, dealers have tried to maintain volume through larger cash discounts and trade-in allowances but this has only sharpened competition. The appliance industry has another worry—the extent to which price advances in steel may be reflected in price tags of items using significant quantities of the metal.

### Appliances at the local level

In the course of conversations with representative appliance dealers and merchandising men in department stores in this Federal Reserve District, we learned details of the retail situation and discussed some of the factors underlying consumer buying attitudes.

Every city and town of this district has its share of dealers in major household appliances. Most are small to medium size, offering a choice of refrigerators, freezers, washers, and ranges (the so-called "white goods"), as well as air-conditioners, vacuum cleaners, television sets, record changers, and radios. In the larger centers, department stores also have a big stake in the appliance business. On one thing they all seem to agree—competition is keen. The chief complaint of most dealers, who depend heavily on instalment sales for volume, is the unwillingness—or sometimes the inability—of prospective customers to make large commitments against future income. Some department stores, doing a substantial cash or charge-account business, feel that too many people already in debt for modern conveniences have insufficient cash for additional outlays. On the instalment part of their business, dealers and department stores are exercising greater caution all along the line. Even if the down payment is there, the primary consideration is whether the individual credit risk is good. This is a sound position and it bodes well for the future. But it does not make for a larger volume of business in the present.

### Demand varies widely from one area to another . . .

Replies to the query, "How is the appliance business?" range all the way from the description of a market that is quite strong in all departments, with decided improvement noted lately, to the lament that sales are much below their year-ago level and still declining. These extremes are, of course, the exception. York, Harrisburg, and Reading are typical of areas where recent selling experiences have been best on an all-around basis. Bethlehem—and in fact much of the Lehigh Valley country—presents a situation that for the moment at least is on the gloomy side. Between these extremes are the reports of spotty business from appliance dealers and department stores in Philadelphia and around its perimeter—in places like Paoli, Hatboro, and Glenside. Appliances also are in reduced demand in Altoona and Wilmington.

### . . . and from one item to another

We find that white goods, for example, are selling well in some areas where all other lines are moving slowly. Since white goods frequently

are the "bread and butter" items of the appliance business, their sales trend carries a lot of weight and can well flavor appraisals of the whole appliance market. Television sets, which had been fast moving items for several years, have slowed almost everywhere. Coming up fast, however, are air-conditioners. In a significant number of cases, merchants apparently are rather well sold out on the small one-room units for home use. Some of the larger outlets handle commercial and professional installations. Business in the commercial field has been brisk, largely because of the rapid development of shopping centers in or near the larger city areas. Current sales volume, however, suggests that both commercial and professional markets for air conditioners temporarily have reached a saturation point.

### Buyer preferences are not surprising

Mr. and Mrs. Appliance Buyer, coming from all points of the compass and shopping for a wide variety of items, want quality merchandise from well-known manufacturers in the field. But they want it at a price. They are looking for bargains among the highest cost goods into which have been built all the conveniences that designers can dream up. Merchandise of a less extravagant nature, built to sell at a moderate price, finds little favor in their eyes. Here is where the competition comes in. Prospective customers do a lot of shopping in search of the best "deal."

### The price or a "deal" is the key to more sales

A plentiful supply of appliances in all price ranges has gone a long way to sharpen competition. If it is a cash transaction, the customer wants the discount—a larger one than the fellow around the corner is willing to give. An instalment sale usually means insistence on easier terms—less down, more time to pay—than the dealer in the next block is in a position to give. The dealer who gives in to this pressure makes a sale, and by the same token makes it harder for other appliance men who are trying to "hold the line." He also leaves himself open to the same sort of pressure from the next customer—for news of a deal gets around fast.

### Collection experiences are mostly satisfactory

On this phase of the business few dealers find serious cause for complaint, nor have the department stores experienced much difficulty. Collections sometimes are slow. Occasionally, there are repossessions because they are *too* slow or because of an outright default. These experiences are fewer, however, than they were a year ago and they seem to be decreasing. The reason for this trend is obvious. Dealers large and small, and the department stores too, have become extremely critical in their definition of a good credit risk. Appliance men have told us of numerous instances where sales on a credit basis were refused, even where the prospective customers promptly produced a sizeable down payment. The income source and amount are being investigated much more closely. And the other problem of too many commitments against future income running concurrently is coming in for a "lion's share" of today's credit investigations.

### Inventories running on the heavy side

Like the current demand, the appliance inventory situation is somewhat spotty. The over-all picture does not appear gloomy, but in some items holdings are out of line with sales. Fre-

quently, the complaint relates to television set stocks, which become particularly conspicuous if the dealer in question is in the process of receiving new models. Some dealers express a degree of anxiety concerning their holdings of white goods. In most cases these inventories have grown from a 60-day to a 90-day supply because of a decline in sales. Since refrigerators, freezers, washers, and ranges are pretty much standby items and model changes are scarcely revolutionary, large holdings occasion less concern than last year's models of television sets. Air-conditioners appear to be one item on which a majority of the appliance dealers are understocked. Waiting periods of one or two months are frequently mentioned.

### Air-conditioners a leader for the future

White goods always have bulked large in overall sales volume. The period when radios and record players were a feature has come and gone. Now, television—an undisputed leader since World War II—is giving way to a new drawing card, that is, small air-conditioning units for the home. Already many new and old homes can boast of one room in which the climate is made to order. Like its predecessor, television, which could enjoy a repeat sale because of the wish for a set in the rumpus room, the air-conditioner—already installed in the master bedroom—is selling an additional unit for "climatizing" at least one other area in the house.

Dealers everywhere are enthusiastic over air-conditioning. Some have run promotionals that have met with great success. Others have been just quietly selling and installing units for an amazing number of customers who just came in to inquire. In the words of one appliance dealer, "Air-conditioners now are selling themselves." It was the opinion of a recent conference on housing that by 1957 most new houses in the United States would be air-cooled.

Looking further ahead in the field of appliance merchandising, both color and three-dimensional television may take the leading position now held by air-conditioning. These developments would be consistent with the history of the successful efforts of American industry to meet the challenge of competition by providing new devices to attract consumers' dollars.

# CURRENT TRENDS

For business as well as for the weather, "fair and warm" is an appropriate report as the nation enters the second half of 1953.

High-level activity in the industrial field, in construction, and in distribution continues to characterize the business picture. With it all, price levels remain steady. Wholesale prices are a few percentage points below those of a year ago, and consumer prices are only slightly higher.

Whether consumer resistance and strong competition will restrain the possible effects of recent pressures it is too early to say. For example, steel price increases averaging $9.30 a ton may raise the nation's annual steel bill by more than $800 million. With increases in crude

oil prices, prices of most petroleum products seem to be headed for higher levels. Wages, too, have gone up for construction, steel, and automotive workers.

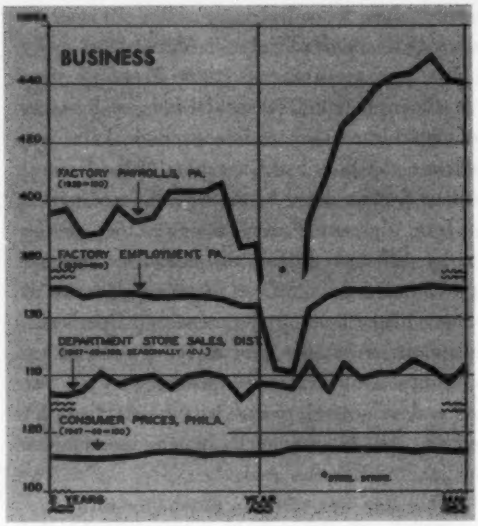
Active business is reflected in a money supply in the form of deposits and outstanding currency moderately above the early summer of 1952, and in bank loans for both business and consumer purposes at higher levels. Corporate and municipal borrowing through the security markets continues heavy and to cap it all the Federal Government has been in the market to supplement revenues. In the fiscal year ended June 30, budget expenditures ran ahead of receipts by $9.4 billion, and the cash deficit is estimated at $5.2 billion. Steps taken during the last three months of the fiscal year to help finance the deficit included an increase in Treasury bills outstanding of about $1.7 billion, a $1.2 billion issue of 30-year 3¼ per cent bonds, and $0.8 billion of tax-anticipation bills due in September.

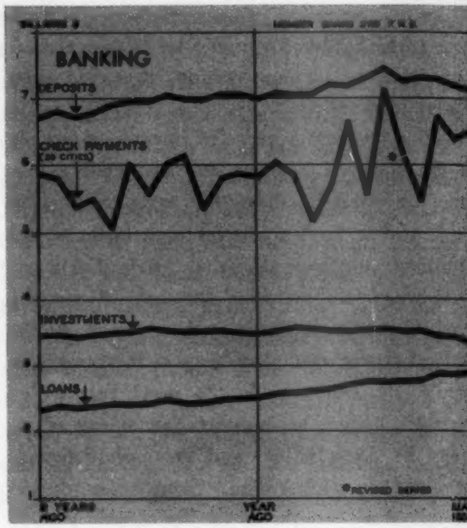
Estimates for fiscal 1954 indicate that the Treasury will need to enter the market again later this year to help finance its operations. Under the President's tax program, the budgetary deficit will total about $6 billion and the cash deficit about $3 billion. Requirements for the first half of the fiscal year (July 1 to January 1) are augmented by seasonally low tax receipts. The Treasury may have to raise a total of between $9 billion and $12 billion in new money during this period. About half of this amount was obtained in July through the sale of 2½ per cent tax anticipation certificates due in March 1954.

The heavy requirements of the Treasury come at a time when the seasonal needs of business and agriculture also tend to expand. As a consequence, the Board of Governors of the Federal Reserve System acted to prevent the credit market from tightening excessively in the coming months. Effective July 1, the Board reduced reserve requirements on net *demand* deposits at country banks from 14 per cent to 13 per cent. Reductions were also effective on July 9 at reserve city banks from 20 per cent to 19 per cent and at central reserve city banks from 24 per cent to 22 per cent. In announcing the changes, the Board stated:

> This step was taken in pursuance of Federal Reserve policy, designed to make available the reserve funds necessary to meet the essential needs of the economy and to help maintain stability of the dollar. The reduction, releasing an estimated $1,156,000,000 of reserves, was made in anticipation of the exceptionally heavy demands on bank reserves which will develop in the near future when seasonal requirements of the economy will expand and Treasury financing in large volume is inescapable. The action is intended to provide assurance that these needs will be met without undue strain on the economy and is in conformity with System policy of contributing to the objective of sustaining economic equilibrium at high levels of production and employment.

# FOR THE RECORD...



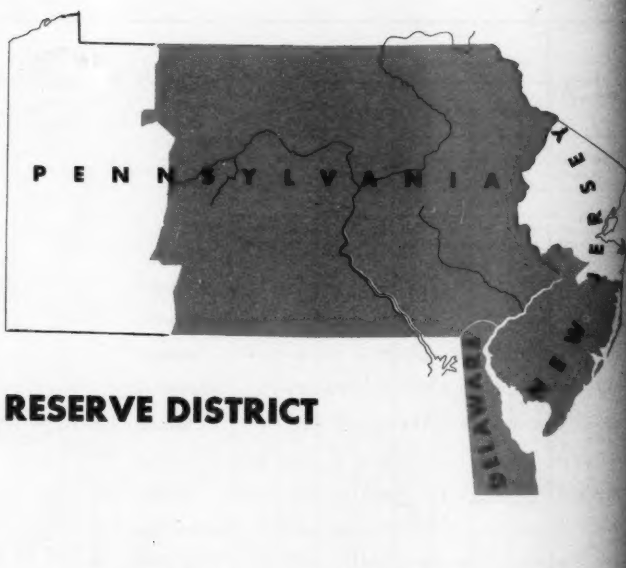




| SUMMARY | Third Federal Reserve District — Per cent change — May 1953 from mo. ago | May 1953 from year ago | 5 mos. 1953 from year ago | United States — Per cent change — May 1953 from mo. ago | May 1953 from year ago | 5 mos. 1953 from year ago |
|---|---|---|---|---|---|---|
| **OUTPUT** | | | | | | |
| Manufacturing production | 0* | + 6* | + 4* | 0 | +13 | +11 |
| Construction contracts‡ | +23 | +10 | +33 | −2 | − 1 | + 7 |
| Coal mining | +32 | − 5 | −22 | +4 | + 3 | −13 |
| **EMPLOYMENT AND INCOME** | | | | | | |
| Factory employment | 0* | + 4* | + 3* | 0 | + 8 | + 7 |
| Factory wage income | 0* | +14* | +12* | ... | ... | ... |
| **TRADE**** | | | | | | |
| Department store sales | + 8 | + 8 | + 3 | +7 | + 6 | + 3 |
| Department store stocks | + 3 | + 6 | ... | +2 | +10 | ... |
| **BANKING** (All member banks) | | | | | | |
| Deposits | − 1 | + 2 | + 3 | 0 | + 2 | + 3 |
| Loans | + 1 | +14 | +14 | 0 | +12 | +12 |
| Investments | − 2 | − 4 | − 2 | −1 | − 4 | − 1 |
| U.S. Govt. securities | − 3 | − 6 | − 3 | −1 | − 6 | − 2 |
| Other | 0 | 0 | + 1 | 0 | + 4 | + 5 |
| Check payments | + 2§ | +15§ | + 9§ | −2 | + 7 | + 8 |
| **PRICES** | | | | | | |
| Wholesale | ... | ... | ... | 0 | − 2 | − 2 |
| Consumer | 0† | + 1† | + 1† | 0 | + 1 | + 1 |

*Pennsylvania †Philadelphia §20 Cities
**Adjusted for seasonal variation. ‡Based on 3-month moving averages.

| LOCAL CHANGES | Factory* Employment — Per cent change May 1953 from mo. ago | year ago | Factory* Payrolls — Per cent change May 1953 from mo. ago | year ago | Department Store Sales — Per cent change May 1953 from mo. ago | year ago | Department Store Stocks — Per cent change May 1953 from mo. ago | year ago | Check Payments — Per cent change May 1953 from mo. ago | year ago |
|---|---|---|---|---|---|---|---|---|---|---|
| Allentown | +1 | −1 | −1 | + 6 | ... | ... | ... | ... | − 2 | + 1 |
| Harrisburg | −7 | −3 | −3 | + 5 | ... | ... | ... | ... | − 3 | + 7 |
| Lancaster | +1 | +6 | +1 | +13 | +36 | +14 | −6 | + 8 | + 1 | 0 |
| Philadelphia | 0 | +8 | +1 | +17 | +10 | + 8 | −1 | + 4 | + 1 | +17 |
| Reading | 0 | +6 | 0 | +16 | +15 | + 8 | −4 | +10 | + 1 | +26 |
| Scranton | 0 | +6 | 0 | +12 | ... | ... | ... | ... | − 3 | 0 |
| Trenton | +1 | +9 | +1 | +24 | +13 | + 7 | −8 | +11 | +34 | +19 |
| Wilkes-Barre | +3 | +3 | +5 | + 6 | +16 | − 1 | −2 | + 3 | + 1 | + 9 |
| Wilmington | 0 | +8 | −3 | +15 | +16 | + 8 | −4 | + 9 | + 1 | +17 |
| York | −1 | +6 | −3 | +17 | +35 | +28 | +4 | +18 | − 4 | +13 |

*Not restricted to corporate limits of cities but covers areas of one or more counties.




THIRD FEDERAL RESERVE DISTRICT